



City of Santa Barbara
Airport Department

DATE: March 19, 2014
TO: Airport Commission
FROM: Hazel Johns, Acting Airport Director 
SUBJECT: Airline Rates & Charges for FY2015

RECOMMENDATION:

That Airport Commission recommend approval of airline rates and charges for FY2015 including annual Airline Terminal building space square footage rate of \$94; a boarding bridge fee of \$90 per turn; and landing fee of \$3.52 per thousand pounds of gross landed weight effective July 1, 2014 through June 30, 2015.

DISCUSSION:

Background

The airlines serving Santa Barbara operate under annual Operating Permits rather than Lease Agreements. The Operating Permit establishes rental rates for airline terminal space, landing fees, boarding bridges, and addresses security and operational requirements.

Air Service Changes

As the airline industry seeks profitability with mergers and bankruptcy, air service nationwide and at Santa Barbara continues to be impacted. The airlines continue efforts to reduce capacity, removing low performing routes and removing inefficient aircraft. In April 2014, Santa Barbara will lose four daily American Eagle flights to Los Angeles resulting in a 13% reduction in total passengers in FY2015. American Eagle passengers wishing to connect with other cities in the United States will be able to do so through U.S. Airways via its Phoenix hub. There are currently 5 non-stop destinations with service from four major airlines.

Methodology for Calculating Airline Rates and Charges

- **Airport Department Budget**

The new rates have been developed by using the proposed FY 2015 operating and maintenance budget for the Airport Department, \$13,633,000. Airport expense is defined as all reasonable costs and expenses incidental to, necessary for, or arising out of maintaining and repairing the Airport. The calculation of airline rates, fees, and charges is based on recovering the following costs from the FY 2015 Department Budget:

- i. Direct and indirect operating expenses,
- ii. Debt service associated with capital improvements less any pledged federal grants, passenger facility charge (PFC) revenues, or customer facility charge (CFC) revenues, and
- iii. Annual deposits to the Mandatory Reserve Funds and the Capital Reserve Fund.

These projected expenses are allocated to five cost centers as follows:

1. Airfield – including runways, taxiways, ramp and grass areas totaling 30% of the budget;
2. Terminal building – the new passenger terminal including the sidewalk and curb adjacent to the landside of the terminal and the various non-airline functions in the building totaling 55% of the budget;
3. Boarding bridges – at the request of the airlines a separate cost center was established for the bridges which channel passengers between the terminal and certain aircraft;
4. Commercial and industrial –non-aviation resources including Airport property leased to private commercial and industrial tenants north and south of Hollister and comprise, 10% of the budget; and
5. Other buildings and areas – including general aviation, cargo, automobile parking, landscaping, roadways, parking lots, etc. and comprise 5% of the budget.

The allocated costs are reduced by Airport revenues. The net amount for the Terminal building, Boarding Bridges, and Airfield (landing fee) is recovered from the airlines in annual square foot building rates, boarding bridge fees, and landing fees. The calculation for establishing the Airline Rates and Charges is more fully described in the Attachment to this report.

- **Airline Negotiations**

An updated rate calculation spreadsheet report was distributed to the airline representatives. The airline properties representatives from Alaska, American Eagle, US Airways, United, and Frontier airlines met with staff on March 10, 2014 to review the proposed rates.

After a thorough review of the budget data, the airlines agreed to the proposed rate changes. The building rental rate increases from \$87 to \$94 per square foot per year, the Boarding Bridge fee increases from \$56 to \$90 per turn; and the Landing Fee increases from \$3.46 to \$3.52 per thousand pounds of landed weight.

A mid-year review of the operating budget and a status report on revenues will be provided to the airlines to allow time for an adjustment of rates should the airline schedule, service levels, or equipment not meet projections.

Additionally, the airline representatives proposed that the Airport include a penalty for those airlines that do not sign the annual operating agreement. The penalty for non-signatory carriers is common practice at many airports and ranges from 25% to 50%. The penalty will be included in the FY2015 airline operating agreements.

Cost Per Enplaned Passenger

Airlines use "Cost per Enplaned Passenger" (CPE) as a key indicator for their decisions about where to locate air service. The CPE is a ratio, not a specific charge. It represents the total costs of airport operations that are allocated to airlines and are charged to them in landing fees,

rents or other specific charges, divided by the total number of passengers boarding planes each year.

As enplanements decrease the Cost per Enplaned Passenger ratio will increase or as costs increase the ratio will increase. All things being equal, CPE will get lower as passenger activity increases. Airports use the CPE ratio as a guide for cost containment, comparison with competing and/or similar sized airports.

The actual CPE for FY2013 year end was \$10.17 and the target rate for FY2014 will be greater due to the loss of American flights to Los Angeles. The FY2015 recommended airline rates and charges coupled with projected passenger traffic results in a CPE for FY2015 of \$11.67. The airlines recognize the changes that have taken place and acknowledge the reason for the increase.

CALCULATION OF AIRLINE RATES AND CHARGES

Airline Terminal Building Rental Rate

The Airline Terminal building rental rate is calculated by adding the allocation of the Airport maintenance and operating costs, Council mandated reserves, the building's debt service, and the amortization amount for Airport cash funded capital projects. The Total Terminal Cost for FY 2015 equals \$9,169,954.

Revenue generated from Terminal passengers in the rental car, gift and food and beverage concessions is deducted from the Total Terminal Cost, leaving a Terminal Building Requirement of \$7,152,668 that needs to be recovered from airline rentals.

The rental rate charged to the airlines is calculated by dividing the amount to be recovered (\$7,152,688) by the total Terminal building square footage (67,586). The result of that calculation is the annual Terminal Building square footage rate which is \$106. The FY 2015 negotiated rate is \$94. The unfunded amount of \$291,000 is included in the landing fee calculation.

Boarding Bridge Fee

This cost center only applies to airlines that use the passenger boarding bridges. United Express will not use the boarding bridges for turboprop aircraft. Alaska Airlines prefers to ground board its passengers.

The boarding bridge fee is calculated by adding the allocation of maintenance and operating costs, Council mandated reserves, and the debt service amount attributed to the three boarding bridges which equals the Boarding Bridge Requirement to be recovered, or \$246,800.

The fee charged to the airlines is calculated by estimating the number of times the airlines will use the boarding bridges during the year based on their schedules. Each use of the bridge is called a "turn". It is estimated that there will be 2,748 "turns". The Passenger Boarding Bridge Requirement to be recovered (\$246,800) is divided by the number of "turns" (2,748) which equals \$90, the fee charged for each use of the boarding bridge.

Airline Landing Fee

The Landing Fee is a residual fee. The costs for maintenance and operation, the net debt service requirement, Council mandated reserves, and the amortization amount for Airport cash-funded capital projects are added together for a total Airport Cost Base of \$15,446,000.

The Cost Base Amount is then reduced by the total revenue projected from Commercial Industrial properties, all other non-airline revenues, the projected Airline Terminal Building space rental, and the Boarding Bridge fees. The remaining amount equals \$1,368,353 which is the Airline Landing Fee Requirement.

Next the Projected Airline Landed Weight is estimated by using the airline schedules to project the number of landings and aircraft type and weight for the year. The weight used for each aircraft type is based on the published maximum gross landed weight. The landed weight projection for FY 2015 is 388,197 (1,000-pound units).

The Airline Landing Fee Requirement (\$1,368,353) is divided by the projected landed weight (388,197) which equals the landing fee rate (per 1,000 lbs. of landed weight) of \$3.52.